

Message Text

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PAGE 01 ABIDJA 05050 271006Z

ACTION AF-10

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R 270850Z MAY 78

FM AMEMBASSY ABIDJAN

TO SECSTATE WASHDC 8892

INFO AMEMBASSY ACCRA

AMEMBASSY COTONOU

AMEMBASSY DAKAR

AMEMBASSY LOME

AMEMBASSY MONROVIA

AMEMBASSY NIAMEY

AMEMBASSY OUAGADOUGOU

AMEMBASSY PARIS

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E.O. 11652: N/A

TAGS: EFIN, IV

SUBJECT: IVORY COAST GOVERNMENT REASSESSMENT OF ITS FINANCIAL
SITUATION

REF: ABIDJAN 2824

SUMMARY: AS DISCUSSED REFTTEL, THE GOIC HAS OVER THE PAST TWO YEARS
PUMPED THE RATE OF DEVELOPMENT INVESTMENT IN IVORY COAST UP TO AN
UNSUSTAINABLY HIGH LEVEL, AGGRAVATING INFLATION AND, MORE SERIOUS,
INCREASING EXTERNAL DEBT TO A WORRISOME LEVEL. ENCOURAGINGLY, IN
THE FACE OF WORLD BANK, COMMERCIAL BANK AND OTHER EXPRESSIONS OF
CONCERN, THE GOIC HAS TAKEN STEPS OVER THE PAST TWO MONTHS WHICH
DEMONSTRATE THAT IT IS AWARE OF THESE DANGERS, AND IS ATTEMPTING TO
AVERT THEM. SPENDING HAS BEEN REDUCED, SOME OLD LOANS HAVE BEEN
CANCELLED, AND ACCEPTANCE OF NEW ONES HAS BEEN RESTRAINED. THIS IS
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PAGE 02 ABIDJA 05050 271006Z

A GOOD BEGINNING AND JUSTIFIES INCREASED OPTIMISM REGARDING THE
GOIC'S ABILITY TO COPE WITH THE EXTERNAL DEBT PROBLEM. HOWEVER,
THE ULTIMATE SUCCESS OF THE AUSTERITY PROGRAM WILL DEPEND HEAVILY
UPON THE GOIC'S ABILITY TO HOLD DOWN ITS SPENDING OVER THE MEDIUM
TERM. THE NEW PUBLIC INVESTMENT PROGRAM NOW BEING DRAFTED WILL
PROVIDE A BASIS FOR ASSESSMENT OF ITS EFFORTS IN THIS REGARD.
END SUMMARY.

1. AS DISCUSSED REFTEL, THE GOIC HAS OVER THE PAST TWO YEARS PUMPED THE RATE OF DEVELOPMENT INVESTMENT IN IVORY COAST UP TO AN UNSUSTAINABLY HIGH LEVEL, AGGRAVATING INFLATION AND, MORE SERIOUS, ACCUMULATING A VOLUME OF EXTERNAL DEBT, THE SERVICING OF WHICH WILL BEGIN TO TAX HEAVILY THE IVORIAN BALANCE OF PAYMENTS WITHIN TWO-THREE YEARS. DATA COMPILED SINCE REFTEL PREPARED INDICATE THAT GROSS FIXED CAPITAL FORMATION AMOUNTED TO 26 PERCENT OF GROSS DOMESTIC PRODUCT IN 1977. GDP ROSE 37.4 PERCENT TO 1,527 BILLION CFAF (\$6.6 BILLION), BUT REAL GROWTH WAS ONLY 7.8 PERCENT; INFLATION WAS 27.5 PERCENT. EXTERNAL DEBT INCURRED DURING THE YEAR WAS AT LEAST \$1.6 BILLION ON TOP OF PREVIOUSLY OUTSTANDING DEBT OF \$2.3 BILLION. DEBT SERVICE IS ESTIMATED TO HAVE RISEN ABOUT 40 PERCENT TO \$310 MILLION. THANKS TO A DRAMATIC RISE IN EXPORT RECEIPTS, IT STILL AMOUNTED TO ONLY 12.4 PERCENT OF EXPORTS OF GOODS AND SERVICES. HOWEVER, THE INCREASE IN DEBT SERVICE WILL CONTINUE TO ACCELERATE OVER THE NEXT SEVERAL YEARS. PROJECTIONS TAKING INTO ACCOUNT ONLY THE AMORTIZATION OF LOANS OBTAINED THROUGH 1977 YIELD A DEBT SERVICE RATIO OF 25 PERCENT AS EARLY AS 1980.

2. ENCOURAGINGLY, FOLLOWING WORLD BANK, COMMERCIAL BANK AND OTHER EXPRESSIONS OF CONCERN, THE GOIC HAS TAKEN STEPS OVER THE PAST TWO MONTHS WHICH DEMONSTRATE THAT IT SEES THE DANGERS CONFRONTING IT AND IS ATTEMPTING TO AVERT THEM. EMBASSY HAS LEARNED THAT IN RECENT CONVERSATION, PRESIDENT HOUPHOUET MANIFESTED A DETAILED KNOWLEDGE OF THE EXTERNAL DEBT SITUATION AND STATED THAT THE GOIC INTENDS TO LIMITED OFFICIAL USE

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PAGE 03 ABIDJA 05050 271006Z

KEEP THE LEVEL OF ITS DEBT SERVICE UNDER 18 PERCENT OF EXPORTS. WHILE THIS APPEARS TO BE A RATHER AMBITIOUS GOAL GIVEN THAT THE SCHEDULED PAYMENTS ON DEBT ALREADY INCURRED SEEM BOUND TO DRIVE THE RATIO ABOVE THAT LEVEL, IT MAY PROVE ACHIEVABLE. THE GOIC HAS EMBARKED ON A MAJOR REASSESSMENT OF ITS DEVELOPMENT PROGRAM. THE 1978-80 PUBLIC INVESTMENT PROGRAM DRAFTED LAST FALL -- REPORTEDLY CALLING FOR A CONTINUATION OF 1977 LEVELS OF SPENDING -- HAS BEEN SCRAPPED WITHOUT HAVING EVER BEEN PUBLISHED. BUDGET OFFICIALS CONFIRM THAT THE 1979-81 INVESTMENT PROGRAM NOW BEING DRAFTED WILL INAUGURATE A MORE AUSTERE REGIME OF SPENDING, POSTPONING A NUMBER OF NON-PRODUCTIVE SOCIAL DEVELOPMENT PROJECTS AND EMPHASIZING DOMESTIC SOURCES OF FINANCING FOR PROJECTS WHICH ARE UNDERTAKEN. FURTHERMORE, THERE IS EVIDENCE THAT INVESTMENTS IN 1978 WILL BE CUT BACK FROM THE 1977 SCALE ENVISIONED IN THE 1978 PUBLIC INVESTMENT BUDGET ENACTED IN JANUARY. WORD IS SPREADING THAT A NUMBER OF FOREIGN LOANS SIGNED LAST YEAR BUT NOT YET DRAWN DOWN ARE TO BE CANCELLED. FOR EXAMPLE, CITIBANK REPORTS THAT AS MUCH AS \$40 MILLION OF THE \$140 MILLION "JUMBO LOAN" SYNDICATION WHICH IT ARRANGED FOR THE GOIC LAST SUMMER WILL BE CANCELLED. SUCH MEASURES, COMBINED PERHAPS WITH PREPAYMENT OF SOME LOANS ALREADY DRAWN DOWN, COULD CONCEIVABLY PERMIT HOUPHOUET TO REALIZE HIS STATED OBJECTIVE.

3. AT THE SAME TIME, THE GOIC STILL HAS A LONG WAY TO GO. EACH MONTH WITNESSES THE SIGNATURE OF SEVERAL NEW LOAN AGREEMENTS BY THE GOIC (A \$50 MILLION LOAN ARRANGED BY CHASE MANHATTAN BANK TO FINANCE THE BUYO HYDROELECTRIC DAM IS TO BE SIGNED SHORTLY), DIRECTLY OFFSETTING THE EFFECT OF CANCELLING OLD LOANS. NO FINAL ASSESSMENT OF THE EFFECTIVENESS OF THE GOIC'S EFFORTS TO REDUCE THE RELATIVE LEVEL OF FOREIGN INDEBTEDNESS WILL BE POSSIBLE UNTIL THE FULL EXTENT OF THE CURRENT LOAN CANCELLATION AND PREPAYMENT PROGRAM CAN BE ESTIMATED AND THE EXTENT OF CUTBACKS IN THE INVESTMENT PROGRAM FOR THE NEXT SEVERAL YEARS IS KNOWN. NEVERTHELESS, THE GOIC HAS MOVED WITH COMMENDABLE ALACRITY IN THE RIGHT DIRECTION OF THE PAST TWO MONTHS AND THEREFORE HAS INSPIRED INCREASED OPTIMISM REGARDING ITS ABILITY TO COPE WITH THE EXTERNAL DEBT PROBLEM.

STEARNS

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